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"Over the top" in business and finance

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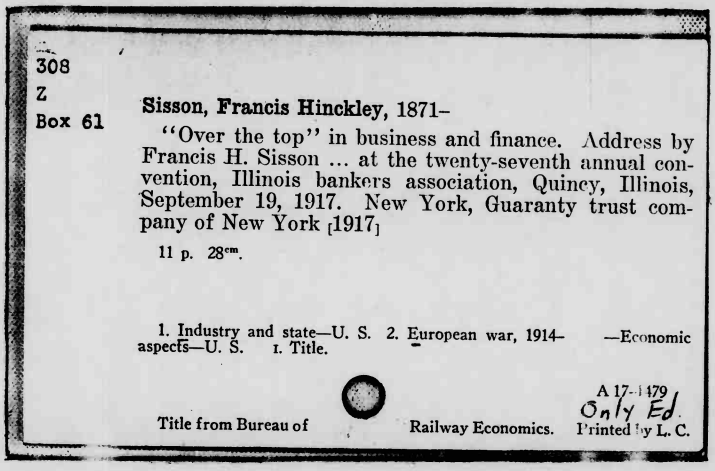

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at the

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"Over the Top" in Business and Finance

ADDRESS BY
Francis H. Sisson, Vice President, Guaranty Trust Company of New York, at the 27th Annual Convention of the Illinois Bankers Association, Quincy, Illinois, September 19, 1917.

THE United States has come out of the trenches of neutrality and gone "over the top" into active war. The United States has also gone "over the top" in business and finance. The days of peaceful profit and smug satisfaction are gone. So, also, are the days of provincialism and narrow insularity. We are in the world war; we are a part of the world struggle; and whether we will it or not we are concerned in all that means the political and economic future of the nations of the world as well as our own.

Into this hurly-burly of war, into the diplomatic mazes and economic tangles of international interests, we have been drawn by the stern logic of events, compelled to take our place and do our part in order that the world may be made safe for democracy and for the institutions which are vital to our own national life and to the peace and prosperity of our people.

As we march across the "no man's land" of preparation, before we plunge into the enemy's trenches, we may possibly be better guided if we pause a moment to view our position and get our bearings for the next charge.

I recall a line from one of the famous old hymns taught me in my youth in that church-going Illinois town of Galesburg, whose opening appeal was, "Watchman, tell us of the night; what its signs of promise are." So perhaps we can with profit today stop for a moment and seek from our watchers on the outer walls some of the signs of promise, and review some of the accomplished facts that have accompanied our first rush "over the top."

Economic Changes

The effects of the tremendous social, economic, and political changes wrought by war cannot but afford interesting study, and our thoughts are quickened daily to the import of it all. We are beginning to grasp the great significance of the fact that perhaps an important duty of the hour is not only to make the world safe for democracy, but to make democracy safe for the world; to develop our latent resources of spirit and matter, to the fullest possible degree and with the highest possible efficiency, that they may be able to render the greatest possible service in meeting the crises and the opportunities that are before us.

Perhaps the greatest lesson we are learning from our excursion "over the top" is the need of national unity—the absolute necessity for sinking sectional and class feeling in a common hope and effort to serve a common purpose. If we are to meet, with our fullest power, both our enemies from without and our enemies from within, there must be no North and no South, no East and no West, no classes and no masses, but in unity of feeling and community of interest we must move on as one people to our great common task. This war is not a sectional war; it is not a Wall Street war nor a Washington war—it is your war and my war, a war for humanity, and, more than anything else, a war for the

ideals upon which this country was founded and upon which its future prosperity depends. In the councils of finance and of government, all sections of the country are represented and their interests weighed. That they may be weighed without fear or favor or prejudice should be the earnest prayer of every patriot.

Government and Business

Another marked step in progress toward the ideal of unity is in the closer union we find today between government and business. Too often have their interests been placed in conflict; too often has the coöperation essential to the success of both been denied. Nothing could contribute more to the development of our resources at home and of our commerce abroad than the sympathetic coöperation of government and business in mutual furtherance of national progress. A broader vision and a greater ability in government, more unselfishness and foresight in business, are absolutely necessary if we are to meet the burdens of today or realize the possibilities of tomorrow.

In many instances the war has shown us how far afield from sound economics some of our governmental policies have led us. For years we have energetically tried by legislation to prevent coöperation in business. Restrictive state and federal laws in bewildering variety have sought to compel an uneconomic condition which the necessities of war reveal in its true light, and every effort of our authorities is now being made to establish, with law or without it, a sound, economic state of coöperation for which the leaders in business and finance have for years pleaded in vain.

Only yesterday the word "pooling" was anathema; today we are pooling food and fuel and ore and oil and transportation, and glorying in the efficiencies and economies effected thereby. Restrictive laws and regulations are ignored, and under the sanction of government, private business is not only permitted but urged to lend its efforts toward effective combinations in the public interest.

Our railroads, under the paternal aegis of the government, are demonstrating in marked degree the efficiency of combination in transportation. With only a 3% increase in equipment, they have shown a 26% increase in transportation service, simply through being permitted, to operate their properties—by agreement among themselves—on a national instead of on a sectional or local basis. Here is a vision of what we may hope for when the railroads may be permanently freed from the thousands of petty cords of local interest which have bound this modern Gulliver, and the instruments of interstate commerce be permitted to serve the needs of interstate commerce, under the direction of the federal body which represents us all.

For years our business men of vision have insisted upon the necessity of developing our merchant marine through ship subsidies and fair regulation, in order that the industrial and commercial interests of this country should find their proper place in the markets of the world. Only the exigencies of war could open the eyes of our governing authorities to the wisdom of this position, but now we find ship subsidies freely granted and every effort being made to give the American flag its place upon the high seas and to open the ocean highways to our great foreign trade.

The natural companion of the American merchantman in foreign lands is the branch of the American bank, and slowly we are beginning to reach out to take our place in the world of finance as we are in the world of commerce. This place cannot be achieved without the fullest coöperation of intelligent and sympathetic government with progressive business.

The Nation's Business

Today the nation's most important business is war. To that task we must address our best efforts. The mobilization of our economic resources is no less important than the conscription of our army, for the army is dependent upon the social and industrial organization of the country.

When the United States joined the Allies and pooled its immense resources with theirs, America's problem became twofold: it was called upon to put at the disposal of its Allies all effective power possible, and, at the same time, to preserve a domestic prosperity. The United States must accomplish titanic financing, and produce a sufficient food surplus to maintain the Allied countries at fighting efficiency.

For the successful prosecution of the war it has been found absolutely imperative to convert the United States into a gigantic corporation, whose business is conducted by a board of directors comprising several committees such as the Cabinet, the Federal Reserve Board, the Export Council, the War Industries' Board, the Food Administration, and the Federal Trade Commission. This is a radical readjustment of our administrative machinery, and creates an anomalous situation when one considers how recently the popular hue and cry was raised against combinations and corporations generally.

If the various administrators appointed by the President have time for reflection in lighter vein they must be amused by the thought that, had they aspired in pre-war days to the arbitrary power at their disposal now, they would have been sent to jail for the remainder of their lives as malefactors and traitors to the public cause. Today they are acknowledged patriots.

Greater changes are inevitable, not alone in governmental affairs but in our business and finances. This is apparent when we realize that, since the outbreak of the European war, the United States has gradually assumed such dominance in fiscal transactions that today it maintains the world's financial equilibrium.

Finance

But we are merely on the threshold of the great era of expansion lying before us. It is essential, therefore, for bankers throughout the country to appreciate that America is today the greatest money market the world has ever known; that we have liquidated our indebtedness to Europe and its peoples are heavily in debt to us; that, by the balance of power thus obtained, we are now controlling the exchanges of the world. But it is still more necessary for them to perceive how we can perpetuate that control, and how we can continue to dominate the production, transportation, and finances of the world.

To materialize that brilliant prospect and to be able to take full advantage of it, we must conserve our money to a greater extent than it has ever before been conserved. We must pool our capital, as it were, in the interest of the Government and of our own future.

Merchants and manufacturers in Canada have been asked to limit their demands for loans on the theory that by so doing they will strengthen the financial situation and better enable the banks to extend the necessary support to the government. In war an unavoidable strain is imposed on bank resources, and for that reason the funds of the country must be conserved.

Only such public and private improvements as are absolutely necessary should be encouraged, and financing should not be undertaken unless it is forced by the exigencies of the situation. Postponement to more propitious days should be the rule. It may even seem best to establish a commission to

pass on the priority of public financial offerings, just as has been necessary in production and transportation, in order that the Government may be relieved from all possible competition for labor, materials, and money. "Will it help to end the war?" is the question by which every proposition should be measured.

A Mobile Banking System

Our banking system must be made mobile enough to expand with our quickened commercial interests, and bankers must take advantage of its facilities in rediscounting. Our credit resources must be fully developed to meet the greater demands which will be made upon the United States for loans to our Allies. Our currency system offers possibilities which must be used without fear or prejudice.

It is true that nearly all of the money we lend to our Allies will be spent in this country, but we should remember that to a large degree the money expended by our Government will flow back into Federal coffers in the form of taxes and proceeds from the recurring sales by the Government of bonds which our people must absorb. So it is of paramount importance to have the Government's financing of the war accomplished with business sense and sound economic reasoning, in order to prevent serious impairment of our industries.

There is no doubt about the willingness of our people to supply money voluntarily, through loans, in far larger amounts than they could ever be compelled to provide through taxation. This popular state of mind has been explained as due to the pyschology that "loans have all the manifest advantages which moral suasion has over compulsion, which an appeal has over demand, which the promise of reward has over the threat of a penalty."

This is, to be sure, a war for posterity, and future generations should share in its burdens. Yet it would be sheer folly for us to attempt to finance the war wholly by means of loans. Germany has tried to do it, relying upon indemnities to be exacted from her victims to pay the loans. And Germany, as a consequence, is facing economic disaster.

America's participation in the war has just begun but it is already costing us millions of dollars in excess of our Government's ordinary receipts, and future expenditures will make progressively commensurate demands upon our resources. This enormous financing must be continued not only for the duration of the war but to some extent afterwards. Its very momentum will carry it on after peace comes.

Governmental Regulation

The regulation of international financial operations will remain in the hands of governmental authorities, rather than be left wholly to independent action by bankers on both sides of the ocean. Provision for the regulation and control of the movement of gold to and from the United States has already been made in the President's proclamation of August 27.

The gold reserve of the United States is approximately $3,000,000,000. Before the war it was about $1,900,000,000. The significance of the more than a billion dollars' increase in our gold reserve lies in the fact that there are, in round figures, only eight and a half billions of dollars of gold reserve in the world, that is, coined gold and gold bullion. The world's credit structure rests upon that foundation.

But since our entrance into the war we have exported more gold than we have imported. Recently there have been heavy and steady drains upon our gold reserve, chiefly by Japan and Spain. The trouble is not that we have an unfavorable balance

of trade with the countries to which we are sending the metal; it is true that we are buying more from Japan than we are selling her but the situation is quite the opposite with Spain. The explanation lies in the balance of trade against the Allies as a whole.

If the outward movement of gold were permitted to continue indefinitely it might have a decidedly serious effect upon the financial status of this country. To let the gold go abroad unrestrictedly would mean that, while increasing government indebtedness to our own people, we should not be adding to our stock of gold, but, on the contrary, would be decreasing our reserve.

It is probable that the control of gold exports will depress still further the value of the dollar in international exchange, especially in Denmark, Sweden, Norway, Holland, Spain, and Switzerland, where foreign exchange is against American money. But that condition can be only temporary. Sooner or later the American dollar will regain its rightful dominance of neutral exchanges.

To cope successfully with conditions, new in their experience and in the history of the United States, bankers throughout the country must study the financial situation with broadening vision.

International Trade

Not only will it be necessary to have international regulation of finances, but also to some extent, regulation of international merchandising. Otherwise, the fiercest commercial competition the world has ever known will follow close upon the greatest war in history. First of all, the world's supplies of food-stuffs, metals, building materials, and other major necessities will have to be distributed equitably for the reconstruction that will follow the close of the war.

The Allies today are studying prospective industrial conditions after the war. There is full recognition of the need for coöperation when peace is arranged. The interdependence of the Entente Powers and their respective industries has never been more manifest. The Allied governments realize that they must retain supervision of imports and exports. Future commercial relations between the different nations, undoubtedly will be discussed when peace conferences are held, and it is more than probable that the Allies will draw up some broad, general plan to keep inevitable German competition within bounds. To prevent indiscriminate competition, the Allies must conduct their buying on some such lines as they have established during the war.

Meanwhile, the United States must bend every effort to increase its producing capacity, which, although it is greater than ever, is not equal to the maximum world demands now being made on it because much European production is either diverted solely to the requirements of war or is in enforced idleness. Fortunately, American adaptability is swiftly and more or less smoothly adjusting American business to the new situation.

Changes Wrought by War

A fundamental change occurred in our business conditions when this country abandoned neutrality to protect democracy. The question of the ethics of exacting excessive profits out of necessities purchased by the Federal Government was one of the potent factors in bringing about the change. Our new obligations to the Allies naturally forbade exploitation of them. To the credit of leaders of industry, it should be noted in passing that the majority of our producers have patriotically coöperated with the Government in reducing prices to a reasonable basis.

The business man, no less than the soldier, must make sacrifices for the protection of his country. Likewise, it is incumbent upon the government to exercise care in commandeer-

ing business men's profits so that individual or corporate incentive and ability may not be lessened.

The American public, too, will have to prepare for a sharp readjustment in values after the war. Prices of material and merchandise will fall. Banks are now forced to lend to their customers a great deal more than in normal times because the value of stocks of merchandise has increased unprecedentedly. When peace comes, the reaction will be marked; a sudden peace might precipitate a violent depression of war-inflated values of merchandise. Manufacturers and merchants who have on hand goods which were produced under fictitious conditions as regards cost of labor and material, and for which there may be little demand, even if sold at a loss, may suffer.

The Use of Acceptances

The more general use of trade acceptances will tend to safeguard the business future by materially developing the credit resources of the country on a sane and safe basis. They will help to check overbuying, eliminate losses from bad and slow collections, simplify bookkeeping, and rate the buyer as a preferred customer. All of these advantages, and many more which trade acceptances possess, obviously will benefit the consumer also. Thus the general adoption of trade acceptances is a national economic necessity.

One of the salutary results that will grow out of the extended use of acceptances will be the establishing of a closer relationship between the manufacturer and merchant and the banker. The selling of products abroad necessitates the granting of some form of credit. In many instances, the manufacturer or merchant is not himself in a position to give credit, but he can arrange for it with his banker by means of a trade or a bank acceptance—a sound circulating medium of finance that commands a low interest rate. England achieved her preëminence in the financial and commercial world by the use of acceptances. American business and industry must employ the same means to the fullest possible extent if they are to realize their possibilities.

The industrial expansion required of us by the war must be encouraged, for it is necessary to the success of our military operations. President Wilson only recently reminded us that "the battle-line of democracy for America stretches from the fields of Flanders to every house and workshop." So, despite the enormous drafts which the Government is making, and will continue to make upon our financial resources, sufficient funds must be found to develop our industries adequately to meet the demands upon them. That situation will create a steady demand for capital and occasion a gradual rise in money rates.

Problems in Agriculture

Every effort must be expended to develop our agricultural resources. The United States will have to be converted into a veritable granary, for war is as much a matter of food supply as of men, munitions, and money. The world depends upon the United States to save it from famine.

But the assurance of bumper crops generally, and their vast increase in values, present new problems in our financial readjustments. Prices are higher than ever before, and the price-factor is playing a strikingly important role in the financing of this year's harvests. The volume of money which will ultimately be needed for this purpose will be enormous. The figures of normal times afford no criterion for today and cannot be used as a basis for calculation now.

The prevailing high prices for wheat, corn, oats, and rye will result in great prosperity, which will be experienced first in the West but which will eventually spread throughout the entire country, for the price of food is the

basic cost of producing almost everything else that humanity consumes.

Another big factor in marketing the crops this year is the difficulty in transportation. Transportation facilities are as essential as money in the movement of grain. Time is the essence of the contract in banking and in transportation.

The railroads have been asked by the Government to provide facilities for the movement of troops and for the transportation of supplies and munitions of war. It will require a great deal of power and rolling stock to move our new armies to their destinations. This extraordinary movement is likely to disorganize, or at least seriously to interfere with, the traffic not only of the railroad systems directly concerned but also of connecting lines. It is inevitably bound to retard and make still more difficult the movement of merchandise and of great commodities that have to be financed from the time they leave the place of production until they reach their points of destination here or abroad.

The marketing of the cotton crop also will be difficult not alone for these reasons but because of the destruction of ocean tonnage. As a consequence of German submarine activities, war risk insurance is higher than ever, thereby adding to the cost of moving cotton. Besides, our present comparatively small merchant fleet is now needed to transport men, foodstuffs, and munitions to Europe. Many of the coastwise steamers which usually carry cotton have either been sold or commandeered by the Government.

Transportation

This problem of transportation facilities, constitutes a most important element not only in the vital matters of crop movement and military operations, but in practically every phase of our life.

The trend of national coöperation is strikingly exemplified in railway readjustments. Through the activities of the Railroads' War Board, the 262,000 miles of railroads in the United States have been operated since April practically as a single system. The shortage in cars has been reduced approximately 75 per cent. During July about 16,000,000 train-miles per year were eliminated. The taking off of unnecessary passenger trains has made available more than one million tons of coal for other purposes. The remarkable increase in the handling of ton-mileage is equivalent to an addition of 35,000 miles to our railroads, or 11,000 miles more than the total of Great Britain and only 3,000 miles less than the mileage of Germany. It has amounted, in other terms, to the adding of 125,000 cars to the rolling stock of the roads.

Perhaps the most satisfactory feature of this great improvement in railroad efficiency is that at least some of it will be permanent, and will lead to further progress toward an ideal of efficiency under some plan of unified regulation and operation by which railroad credit will be protected and the expansion of railroad facilities encouraged.

Labor

Perhaps the greatest economic problem which the United States will have to solve when the war ceases will be that of finding useful work for millions of men, capital to keep them busy, and markets for their products.

The demands of war have created more employment than ever before existed in this country. Wages are higher and there is practically no unemployment. In fact, we are facing a shortage of labor similar to that with which Europe had to contend at the beginning of the war. Yet we must face the day on which millions of men will be released from martial pursuits when the army is demobilized, and millions more will be out of work

when the factories engaged in the manufacture of munitions and auxiliary products discharge their hordes. There must be an equitable but radical liquidation and redistribution of such labor.

A new problem is presented in the sex element of the industrial situation. The dearth of men in many important fields of labor is daily necessitating the employment of more women, even in strenuous physical pursuits. It is significant of the rapidly advancing tendency in this direction that the Army and Navy departments have announced that wherever women applicants can take the place of men in the routine work, they will be given preference. Many big manufacturing concerns and mercantile houses are doing likewise. Banks have replaced a large number of their men clerks with women; railroads are employing women in many departments, and munition plants are training women in order gradually to release their men for military service.

More than one million and a half women have undertaken men's tasks in England.

Another important factor in England's labor situation, and one that will bear fruit in post-war days, is the training of the unskilled. Classes for this purpose have been formed in technical schools, and groups of untrained employes have been placed in plants under skilled men. In these two ways the unskilled have been made efficient.

The part, too, which new inventions and labor-saving machinery are to play in future industrial development must be reckoned with. The worldwide reconstruction which will follow the war will be of such a colossal scope as not only to preclude the possibility of over-production but as to tax our capacities.

World Leadership

This should mean world leadership for the United States with its resources of men, materials, and money such as no nation from the beginning of time has experienced. It means an horizon for us as broad as the earth. It imposes upon us, too, the grave responsibility of discharging our duties to mankind with thoroughness and honor. We must rise to the great opportunity, created partly by circumstances but largely by the native ability and initiative of our people. Upon none of us will more of the burden fall than upon the business man and the financier.

The sheer expansion of credit to meet expenditures in excess of either the liquid income or capital resources of all the countries combined in the present conflict will solve the economic problems of the war only temporarily. The permanent solution depends upon increased production.

Astonishing proof of the productive power of the world-at-large is furnished by the fact that war on the scale maintained for more than three years has not caused general privation. True, some of the European countries have suffered great hardships but there has also been a surprising amount of widely diffused prosperity. This demonstrates what a great margin of latent productive power exists in the world.

The United States has not yet fully awakened to her wonderful potentialities, which this war, deplorable as it is, will develop and not destroy.

Some student of ethnology has declared that the racial genius of the Anglo-Saxon is for initiation, of the Teuton for organization, and of the Celt for administration. In this country we have them all combined, and they need but be harnessed together by wise government to make a team of the greatest power. Never before in our history has it been so apparent that America is in reality the "heir of all the ages." Never before has it been more apparent that "we are living, we are dwelling in a grand and awful time, in an age on ages telling; to be living is sublime."

Through the discipline and lessons of war, we should be able to take a far step toward that momentous destiny of which the poet sings, which will mark humanity's farthest progress. These lessons are obvious to us all: thrift in place of waste, simplicity instead of self-indulgence, respect for authority in place of careless anarchy, patriotism instead of localism, breadth instead of narrowness, service instead of selfishness. If these be a part of the harvest of war, whatever be its cost, it will not have been in vain, and it will have paved the way for better days to come. If we can learn that neither money nor power are sufficient things in themselves for men to *live* for or *die* for; that, after all, the greatest sense of achievement comes in the triumphs of spirit in a righteous cause, then, indeed, our dead will not have died in vain.

Signs of the Future

But along with these signs of promise, we cannot ignore other signs not so reassuring. The rapid rise of socialistic theories, with their certain menace to individual initiative and national progress, can but cause concern to the thoughtful observer. The failure of our melting pot to assimilate our mixed population and the evident un-Americanism of thousands who have come to our shores to make their homes, are suggestive of grave dangers. The expressed hostility to wealth and the manifest ignorance of its service on the part of public men strike threateningly at conservative institutions. The revealed economic illiteracy of a large proportion of our population and the general failure to grasp the fundamental principles upon which our whole business structure of production, distribution, and consumption rests, is sometimes terrifying in its magnitude.

Yet these are perhaps incidental to our struggle upward, and if, as a lesson of war, we can learn to think nationally and internationally we may yet learn to think in the terms of sound economics. England has already expressed her apprehension of our growing supremacy in commerce and finance, and other nations are jealous of our immense resources and possibilities. But before these can be developed and our leadership established, it must be justified by demonstration at home of our fitness to be leaders in the world's thought and pace-makers in the world's progress toward a better day.

A generation ago Tennyson, with the eye of a seer, foresaw the march of events and pictured the struggle of today and perhaps the peace of tomorrow in these prophetic words:

For I dipped into the future, far as human eye could see,
Saw the vision of the world, and all the wonder that would be;
Saw the heavens fill with commerce, argosies of magic sails;
Pilots of the purple twilight, dropping down with costly bales;
Heard the heavens fill with shouting. and there rained a ghastly dew
From the nations' airy navies grappling in the central blue;
Far along the world-wide whisper of the south-wind rushing warm,
With the standards of the peoples plunging through the thunderstorm;
Till the war-drum throbb'd no longer, and the battle-flags were furl'd
In the Parliament of man, the Federation of the world.
There the common sense of most shall hold a fretful realm in awe,
And kindly earth shall slumber, lapt in universal law.

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